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## INTELLIGENCE BRIEF

HUNGARY TURNING FROM CEMA TO THE WEST  
TO AID CHEMICAL DEVELOPMENT

DIRECTORATE OF INTELLIGENCE  
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HUNGARY TURNING FROM CEMA TO THE WEST  
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Dissatisfied by the failure of CEMA\* plans for an international division of labor, Hungary now is charting a course for the development of its industrial capacity -- and particularly its chemical industry -- which will involve greater dependence on the industrial West. Realizing that other participating countries probably will fail to implement CEMA proposals, Hungarian planners are projecting a larger and more diverse domestic chemical industry than was visualized within the framework of CEMA.

To carry out the new program, Hungary is seeking assistance through more favorable trade conditions with the Free World. In a predictable move, Hungary recently accelerated negotiations with Western firms for the purchase of chemical plants and technology, some of which were to have been obtained originally within the Soviet Bloc. Less predictable have been Hungarian proposals to UK and Austrian firms for extensive collaboration in producing various chemical products. Such collaboration apparently would consist of the Western firm providing key equipment, technical assistance, and at least part of the raw and intermediate materials required as inputs in the production process in return for a share in the final product. These proposals may stimulate sufficient domestic political opposition to preclude their implementation. Nevertheless, the mere fact that they are being promoted testifies to the growing economic independence of Eastern Europe.

1. Dissatisfaction with the Cooperation of CEMA Partners

Hungary recently has subjected its CEMA partners to considerable criticism for their lack of cooperation. According to a recent statement of Rezso Nyers, Secretary of the Party Central Committee, Hungary lags 10 years behind advanced countries in production of major chemical products. This official cautioned against reliance on production within the framework of CEMA to overcome this lag and proposed that the chemical industry be developed at twice the rate of industry in general up to 1980. 1/\*\* In November 1964, Hungary accused its CEMA partners of unwillingness to give up production of

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\* Council for Mutual Economic Assistance.

\*\* The output of industry in general increased 8.9 percent in 1964 compared with 1963, whereas that of the chemical industry increased 12.7 percent.

any remotely promising item and of the desire to manufacture virtually identical products in the field of machine building. 2/

Similar accusations were made in December 1964 in regard to production of pharmaceuticals, the leading sector of the Hungarian chemical industry. Hungary charged that one or another socialist country often seeks "to produce the world's total requirements" of a pharmaceutical even though another socialist country (that is, Hungary) already produces the same one in surplus quantity. The drug papaverine, a non-habit-forming narcotic used as an antispasmodic, was given as a specific example. 3/

Earlier plans for extensive cooperation with Rumania, which has several chemical raw materials in abundance, have proved to be disappointing. In the 1950's, Hungary, which, because of a lack of salt, does not produce soda ash, provided equipment to expand a soda ash plant in Rumania and was to obtain soda products in payment. 4/ Although production and export of soda ash by Rumania have increased greatly, Rumanian exports of soda ash to Hungary have declined, and Hungary has been forced to increase its imports of soda ash from other sources. 5/ In the 1950's, Hungary also helped build a petrochemical pilot plant in Rumania but later withdrew from the project. Further collaboration between Hungary and Rumania has not occurred, partly because of Rumania's preference for developing its chemical industry independently of CEMA and for using its raw materials domestically. 6/

## 2. Hungarian Actions for a More Independent Course

In recent months, equipment and technology originally expected from the USSR have been obtained or sought by Hungary from countries of the Free World. Up to 1963, however, such purchases were below those of almost all other CEMA countries because of lingering Hungarian hopes for CEMA cooperation and because of unfavorable trade conditions with the West. In 1963-64, extensive Hungarian purchases of petrochemical equipment and technology from the Free World were facilitated in part by long-term credits from Belgium and the UK. Early in 1964, Hungary ordered a caprolactam plant from the UK 7/ -- using West German instead of Soviet technology 8/ -- and is now negotiating with the UK for a polyethylene plastics plant valued at \$10.2 million to \$14 million. 9/ Late in 1964 a Hungarian delegation sought 15 chemical processes in the US, the most notable being for a polyacrylonitrile (orlon) plant. 10/ As yet, Hungary has not had

any success in acquiring this plant or the ammonia, fertilizer, dacron, and various petrochemical plants requested. 11/ Before this time, Hungary had made no direct effort to obtain major chemical plants from the US.

The most radical departure in 1964 from earlier Hungarian plans for cooperation with CEMA involves proposals for collaboration with the Free World in developing chemical facilities. Austria was approached in 1964 regarding cooperation in the fields of pharmaceuticals, nitrogen fertilizers, and polyacrylonitrile fiber. In the latter case, Austria was to produce the necessary chemical intermediate and Hungary the fiber. Hungary, in turn, would share the output of fiber with Austria. 12/ Early in 1965, Hungary also suggested joint action and technical cooperation with the UK chemical industry, especially for production of polyacrylonitrile fiber. 13/ The motive for approaching the UK in the matter of facilities for producing polyacrylonitrile fiber is not clear, but this move may have been an effort to seek a more favorable financial arrangement. During his visit to Budapest in January 1965 the Austrian Vice Chancellor, Bruno Pittermann, spoke of increased industrial cooperation between the two countries, 14/ but probably nothing will occur until the visit of the Hungarian Minister of Foreign Trade, Jozsef Biro, to Vienna later in 1965.

### 3. Probable Trend of Development

Because a satisfactory division of labor in the chemical industry of the Soviet Bloc has failed to materialize and because of broader possibilities for trade with the Free World, Hungary now probably will hasten the development of a more broadly based chemical industry. A shortage of raw materials and capital in Hungary has resulted in the development of the narrowest range of chemical production in all the CEMA countries. Thus Soviet Bloc arrangements for specialization in production of chemicals originally were quite attractive. Faced with the inability of CEMA to achieve such a division of labor and stirred by the current possibility of acquiring chemical plants from the Free World, Hungary now proposes to develop previously neglected sectors of the chemical industry. For example, Hungary originally intended to produce polypropylene fiber and to import polyacrylonitrile fiber but now plans to produce both. Attempts to acquire assistance from the Free World to begin production of such other items as synthetic rubber and polystyrene plastic are entirely possible. However,

imports of important chemical raw materials from the Soviet Bloc -- such as petroleum from the USSR -- will provide the basis for much of this development.

The proposals for collaboration with foreign companies in production of chemicals may well arouse domestic opposition. In January 1965 an Austrian official reported that the reason for the failure to implement the plan for producing polyacrylonitrile is the reluctance of Hungary to depend on a non-Communist source of supply for the key basic material. An official of the Hungarian chemical industry reported the possible postponement of production of polyacrylonitrile fiber with Austria until 1970. Nevertheless, the pressure in Hungary for seeking direct forms of cooperation with enterprises of the Free World reportedly is formidable; so the fiber scheme could be one subject for discussion by a Hungarian trade delegation scheduled to visit Austria in April 1965.

Should external opposition develop, it probably could be overcome, for Rumania's more serious challenge to CEMA arrangements has been tolerated. Moreover, recent proposals by Krupp to set up plants in Poland using West German capital and Polish labor have not yet been rejected. <sup>15</sup>/\* Hungary probably will continue to seek new arrangements with the Free World to replace unimplemented proposals for a CEMA division of labor in the chemical industry. In any case, proposals for collaboration with the Free World illuminate the weakness of CEMA and the lessening of Soviet economic control over Eastern Europe.

Hungarian planners presumably are giving serious consideration now to means of increasing exports in order to repay the Free World for purchases of chemical plants and technology. Through 1963, foodstuffs, textiles, and metal products have been the main Hungarian exports to the Free World. In connection with the purchase of a fertilizer plant from Belgium in 1963, Hungary reportedly pressured Belgium into accepting increased textile imports. Hungarian exports to the West of chemicals, of which pharmaceuticals have been the most important subcategory, have been barely significant but could grow in importance once newly acquired plants go into full production. The proposed collaboration with Western countries in chemical production, therefore, is attractive to the Hungarians.

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\* Recently a Krupp representative discussed cooperative arrangements with Hungary, but details are not available.

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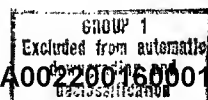
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